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ILLINOIS BELL TELEPHONE COMPANY

Application for review of alternative
regulation plan.

Docket No. 98-0252

ILLINOIS BELL TELEPHONE COMPANY

(Consolidated)

Petition to rebalance Illinois Bell Telephone
Company's Carrier Access and Network
Access Line Rates.

Docket No. 98-0335

CITIZENS UTILITY BOARD
THE PEOPLE OF THE STATE OF
ILLINOIS

Verified Complaint for a Reduction in Illinois
Bell Telephone Company's Rates and Other
Relief.

Docket No. 00-0764

**BRIEF ON REOPENING OF THE ILLINOIS ATTORNEY GENERAL'S OFFICE, THE
COOK COUNTY STATE'S ATTORNEY'S OFFICE, THE CITY OF CHICAGO AND
THE CITIZENS UTILITY BOARD**

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**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

Illinois Bell Telephone Company	:	
	:	98-0252
Application for review of Alternative Regulation Plan.	:	
	:	
Illinois Bell Telephone Company	:	
	:	98-0335
Petition to Rebalance Illinois Bell Telephone Company's Carrier Access and Network Access Line Rates.	:	
	:	
Citizens Utility Board and	:	
	:	
The People of the State of Illinois	:	00-0764
-vs-	:	
Illinois Bell Telephone Company	:	(cons.)
	:	
Verified Complaint for a Reduction in Illinois Bell Telephone Company's Rates and Other Relief.	:	On Reopening

**BRIEF ON REOPENING OF
THE PEOPLE OF THE STATE OF ILLINOIS
THE COOK COUNTY STATE'S ATTORNEY'S OFFICE
THE CITIZENS UTILITY BOARD and
THE CITY OF CHICAGO**

NOW COME the People of the State of Illinois, the Citizens Utility Board, the Cook County State's Attorney's Office and the City of Chicago ("Government and Consumer Intervenors/City" or "GCI/City") and hereby submit their Brief on Reopening in the Commission's review of Ameritech Illinois' alternative regulation plan.

I. Introduction and Summary of Position

In a motion dated January 16, 2002 Ameritech Illinois, the City of Chicago, the Illinois Attorney General's Office, the Cook County State's Attorney's Office and the Citizens Utility Board (collectively, "Joint Movants") moved the Commission to reopen the record in the instant proceeding in order to introduce evidence supporting a method and determination of merger costs and savings addressed by the Commission's October 1999 approval of Ameritech Illinois'

merger with SBC Communications, Inc. ("Joint Motion").

On January 29, 2002, the Commission granted the Joint Motion to reopen the record in the instant docket for the purpose of determining whether the methodology and determination of merger savings set forth in the Joint Proposal "...is fair just, reasonable and in the public interest." *Illinois Commerce Commission – Commission Ruling and Direction on Reopening, January 29, 2002*. Testimony was filed by Ameritech Illinois, by GCI/City, by the Commission Staff, by McLeod USA and by a separate coalition of competitive local exchange carriers (CLECs) consisting of AT&T, MCIWorldCom and McLeodUSA. On March 8th and 11th, 2002 the Illinois Commerce Commission held evidentiary hearings on the reopened issues.

Pursuant to Section 7-204(c) of the Public Utilities Act, the Illinois Commerce Commission (ICC) is required to allocate merger costs and savings before it can approve the reorganization of a public utility. 220 ILCS 5/7-204(c). The Commission approved the SBC/Ameritech merger subject to a variety of conditions, including the required allocation of merger costs and savings.¹ The Commission's allocation provided that 50% of the net merger savings attributable to Ameritech Illinois' non-competitive services should be allocated to consumers of those services and provided for a distribution methodology for those savings.

The annual determination and distribution of merger savings was to take place in three steps: first, a distribution of unaudited savings for a particular year, followed by the issuance of an auditor's report for those savings, and finally a separate course of litigation for every year that savings were being distributed. For example, for 1999 savings, this procedure has just begun, and barring the acceptance of the Joint Proposal, the litigation to distribute 1999 savings would be completed no sooner than April of 2002. We expect the same procedure would then follow for every year following, through 2004. With no statutory time limit on this litigation, the

¹ The Commission's order in ICC Docket No. 98-0555 approved the merger and directed a specific 50% allocation of merger savings be made to Ameritech Illinois' customers. See Condition No. 26 in *Order*, October 11, 1999 (hereinafter "Merger Order") at p. 246.

opportunities for delay and uncertainty in the distribution of merger savings are substantial. The difficulties of managing such a process, the Joint Movants have concluded, is not in the public interest.

The Joint Proposal differs from the original Merger Order only in the manner in which it seeks to distribute merger savings. The Joint Proposal provides for \$197 million as a distribution of the merger savings to various retail and wholesale customers. In addition, the Joint Proposal assumes that when the Commission updates TELRIC prices for UNEs, then carriers purchasing UNEs should benefit further from merger related savings that are reflected in updated TELRIC and shared and common cost studies. Until this occurs, the Joint Proposal provides carriers purchasing UNEs with merger savings in the interim. We urge the Commission to adopt the Joint Proposal.

II. Background on Merger Savings

Illinois law requires the Commission to rule on the allocation of any savings resulting from a proposed merger of a public utility prior to approving such reorganization. 220 ILCS 5/7-204(c).² In its Merger Order, the Commission made this allocation when it stated, "We further conclude on the arguments presented, that 50% of the net merger savings allocable to AI should be allocated to consumers using Staff's distribution methodology." Merger Order at 150. In the case of the proposed SBC/Ameritech merger, the Commission provided for an interim method involving the flow through of net merger savings in the annual price cap filings, to be followed "...until the appropriate mechanisms are made in the five-year review of the plan." *Id.* While the Joint Proposal somewhat modifies the approach to merger savings distribution set forth in the Merger Order, it is a fair, just and reasonable approach to implementing Section 7-204(c) of the

² The statute reads: "The Commission shall not approve a reorganization without ruling on : (i) the allocation of any savings resulting from the proposed reorganization; and (ii) whether the companies should be allowed to recover any costs incurred in accomplishing the proposed reorganization and, if so, the amount of costs eligible for recovery and how the costs will be allocated. 220 ILCS 5/7-204(c).

Public Utilities Act. 220 ILCS 5/7-204(c).

The Commission addressed the manner in which its proposed allocation of merger savings would take place:

It is the ruling of this Commission that the net merger-related savings should be allocated to Ameritech Illinois' customers as follows:

(1) Carriers purchasing AI's UNEs, interconnection, and transport and termination services will benefit from merger-related savings through updated rates resulting from modification of its TELRIC, shared and common costs.

(2) Once the share of the merger-related savings allocable to UNEs, interconnection, transport and termination purchasers have been identified, the remaining balance of savings will be allocated to interexchange, wholesale and retail customers. This will be done by dividing the remaining merger-related savings between IXC's on the one hand and end users (whether served via retail or wholesale) on the other, based on the relative gross revenues of each of these two groups.

Merger Order at 150.

The Commission also provided some insight into the use and timing of revised TELRIC and shared and common cost studies. In its amendatory order on rehearing the Commission indicated:

Order at 242; Condition No. (12):

"LRSIC & TELRIC – Ameritech Illinois will file revised TELRIC and shared and common cost studies with the Chief Clerk of the Commission within six months after the last regulatory approval of the proposed reorganization. Ameritech Illinois will begin to file revised LRSIC cost studies with the Chief Clerk of the Commission within six months after the last regulatory approval of the proposed reorganization. It is noted that Staff is willing to work with Ameritech Illinois to establish a priorities list for such updates to facilitate completion within 12 months. The Commission will utilize the updated studies in its analysis of the Company's request for rate rebalancing and in any other investigations it deems appropriate. However, Docket No. 98-0396 should proceed using the current TELRIC methodology. Further, to the extent timing permits, the new TELRICs submitted by the Joint Applicants within

six months should include the rates determined in Docket No. 98-0396.

ICC Amendatory Order on Rehearing, November 15, 1999, ICC Docket No. 98-0555, p. 6.

As the above language indicates, new shared and common costs were assumed to be the logical economic consequence of updated cost studies resulting from the efficiencies of the merger. The Joint Proposal is not intended to change future Commission updates to TELRIC or to shared and common costs that would naturally reflect any merger savings in the future.

III. The Joint Proposal

The Joint Proposal proffers a resolution of the appropriate method and amount of merger savings to be distributed to Ameritech Illinois' customers, as well as a remedy to the undue delay and uncertainty inherent in the current savings distribution process. The proposal is described in the Joint Motion to reopen the record in this matter. The following parties offered testimony concerning the Joint Proposal:

Ms. Rhonda J. Johnson, Mr. David W. Fritzlen and Mr. David J. Barch testified on behalf of Ameritech Illinois. Ameritech Illinois Ex. 13.0 and 13.1 on Reopening (Johnson), Ameritech Illinois Ex. 14.0 and 14.1 on Reopening (Fritzlen) and Ameritech Illinois Ex. 15.0 on Reopening (Barch).

Ms. Charlotte TerKeurst testified on behalf of the Illinois Attorney General's Office, the Cook County State's Attorney's Office, the Citizens Utility Board and the City of Chicago (GCI/City). GCI/City Ex. 1.0 and 2.0 on Reopening (TerKeurst). Ms. Judith R. Marshall testified on behalf of the Staff of the Illinois Commerce Commission. Staff Ex. 35 and 36 on Reopening (Marshall).

Mr. Michael Starkey presented testimony on behalf of AT&T, MCI WorldCom, Inc. and McLeodUSA Telecommunications Services, Inc. ("CLEC Coalition"). Joint CLEC Ex. 1.0 and 1.0P on Reopening (Starkey). In addition to the testimony provided by CLEC Coalition witness Starkey, Mr. Joseph P. Terfler and Mr. David R. Conn testified separately on behalf of

McLeodUSA Telecommunications Services, Inc. McLeodUSA Ex. 1.0 on Reopening (Terfler) and McLeodUSA Ex. 2.0 on Reopening (Conn).

Ameritech Illinois, through the testimony of Ms. Rhonda Johnson, provided an overview of the Joint Proposal. Ms. Johnson testified that Ameritech Illinois would provide a one time credit of \$197 million. AI Ex. 13.0 on Reopening at 3. In discussing the terms of distribution Ms. Johnson noted:

...This amount would be apportioned between Ameritech Illinois' residential, small business and carrier customer groups based on revenues booked by Ameritech Illinois during calendar year 2001. Credits would be issued to retail consumers (i.e., residence customers) and small business customers (i.e., business customers with four lines and less) on a per-line basis. Credits would be issued on a per line basis to Competitive Local Exchange Carriers ("CLECs") who resell Ameritech services to residential and small business customers with four lines and less. CLECS who purchase unbundled network elements ("UNEs") and interexchange carriers ("IXCs") would also be issued credits based on each individual carrier's proportionate share of the total revenue attributable to this group in 2001...

AI Ex. 13.0 on Reopening at 3.

Mr. David W. Fritzlen testified on behalf of Ameritech Illinois and provided quantitative information supporting the Joint Proposal. AI Ex. 14.0 on Reopening at 3. With respect to how much would be credited to each customer group Fritzlen testified:

CLECs will receive approximately \$6.9 million for their purchase of UNEs, interconnection, transport and termination service. Interexchange carriers will receive approximately \$11.1 million. Since these customers do not incur taxes on wholesale services, there are no applicable tax credits.

Eligible end-users will receive approximately \$178.9 million, which consists of credits to retail customers of about \$175.2 million and credits to CLECs for resale end-users of about \$3.7 million. These amounts are before any applicable tax credits. These calculations are shown on Exhibit 1.

AI Ex. 14.0 on Reopening at 4 (Fritzlen).

According to Fritzlen, "...Based on the number of access lines as of December 31, 2001, eligible

end-users will receive \$43.04 per access line..." AI Ex. 14.0 on Reopening at 5.³

With respect to the timing of the credit, Johnson testified that "The Company will make every effort to issue credits in as timely a manner as possible within 60 days from the issuance of a Commission order." AI Ex. 13.0 on Reopening at 7. Further, in indicating which customers would be eligible, Johnson testified that "Customers eligible for the credit will be those customers of record as of the date that the credit is issued." AI Ex. 13.0 on Reopening at 8.

Johnson also testified with respect to the any impact that the one time credit would have on TELRIC cost development. Johnson testified:

Q. What impact will the one-time credit have on future TELRIC cost development?

A. None. As Ameritech Illinois updates its TELRIC studies over time, the Company will determine its costs based on its forward-looking operations. Although merger savings will not be tracked per se or separately identified, they will necessarily be included in the TELRIC studies as appropriate along with all other operational and cost model changes that may occur in the future. Although no immediate adjustment will be made to Ameritech Illinois' TELRIC studies or associated UNE, interconnection or transport and termination rates expressly to reflect merger savings, this simply means that there would not be "line-item ratemaking" relative to this one cost factor. Ameritech Illinois' future TELRIC studies will properly identify its costs as those costs change over time.

AI Ex. 13.0 on Reopening at 13.

While the Merger Order provided that "Carriers purchasing AI's UNEs, interconnection, and transport and termination services will benefit from merger-related savings through updated rates resulting from modification of its TELRIC, shared and common costs."⁴ the above-cited

³ This credit amount would change if the Commission were to accept McLeod's proposed adjustments to take into account the number of McLeod customers taking Centrex residential service and assuming 43% of McLeod resale business lines are ≥ 4 line (while treating the proportion of all other CLECs 4-business-lines-or-less to be 13%). The per access line credit would then be \$42.68 before taxes. See Ameritech Illinois Ex. 14.1, at 7 and Attachment C.

⁴Merger Order at 150.

testimony demonstrates that the one time credit does preclude merger savings to be reflected in normal cost changes.

Ms. TerKeurst testified that "Providing customers with a one-time credit to reflect forecasted net merger savings is a very desirable outcome of the Joint Proposal." GCI/City Ex. 1.0 on Reopening at 8. Ms TerKeurst also noted after indicating reasons, "...I conclude that the total customer credit levels in the Joint Proposal represent a reasonable resolution of net merger savings amounts to be shared with customers." GCI/City Ex. 1.0 on Reopening at 9.

ICC Staff witness Judith R. Marshall testified that "In my opinion, the \$197 million sum, and associated tax credit set forth in the Joint Proposal constitutes a fair, reasonable and adequate resolution of the allocation of merger costs and savings order by the Commission in the merger order. (Docket 98-0555, pages 146-150)" ICC Staff Ex. 35.0 on Reopening at 3.

IV. Modifications to the Merger Order presented in the Joint Proposal

Although the terms of the Joint Proposal differ to some degree from the procedures outlined in the Merger Order for distribution of net merger costs and savings, the Joint Proposal adopts a similar process to achieve the same goals that the Commission articulated in its Merger Order. It is our intention that Section 7-204(c) of the Act be implemented as fully and as expeditiously as possible. The result is that ratepayers receive a substantial share of merger savings within a relatively short timetable.

The Merger Order foresaw the distribution of unaudited savings via AI's annual rate filings, followed by a formal audit of merger costs and savings, preparation of an official audit report, a formal evidentiary proceeding on the unaudited distributions and the formal audit to be litigated years later. Actual merger savings may then be distributed to ratepayers only following the resolution of all litigation and appeals. Even under the best of circumstances, this process is realistically expected to take several years *for each and every one of the five years during which merger costs and savings are to be tracked and net savings distributed to ratepayers*. The actual number of manhours to be spent by the Commission and the parties on such a process would be

formidable, to say the least.

In addition to the untimely and burdensome efforts that are necessary under such a procedure, GCI/City witness TerKeurst's testimony pointed out the many problems inherent in the "after-the-fact" approach to assessing net merger savings that is currently in place. TerKeurst described the difficulty in accurately identifying merger-related initiatives, the massive complexity of precisely calculating merger costs and savings and the near impossibility of verifying the assumptions upon which such calculations inevitably must be based. GCI/City Ex. 1.0 on Reopening at 6-7. Ultimately, these calculations proved so huge a task that TerKeurst suggested, in testimony supplied in Docket No. 01-0128, that the Commission might want to rely upon pre-merger savings estimates. Significantly, the Commission Staff also agreed that the Commission might want to rely upon forecasts in order to reduce regulatory burden and delay. GCI/City Ex. 1.0 on Reopening at 7. Disputes regarding adjustments to Ameritech Illinois' pre-merger plan, problems connected with identifying year-to-year variances and the possible insufficiency of accounting standards used to track merger savings all conspire to deprive ratepayers of a timely and fair distribution of merger savings. And as TerKeurst testified, these conflicts are not expected to improve in the future. Id.

Not only does the Joint Proposal offer an alternative to these practical obstacles, it does so while adhering to the Commission's intention that the calculation of merger savings use actual savings data. As TerKeurst has pointed out in her Direct Testimony, the Joint Proposal considered the results of Ameritech Illinois' reported net merger savings for 1999 and 2000, Ameritech Illinois' estimate for 2001 based on eleven months of actual data, BWG's audit reports and the parties' evaluations already made in Docket No. 01-0128. The Merger Order itself provides only that merger costs and savings are to be determined upon the availability of actual data. The Joint Proposal was developed after two years of actual data became available and is therefore consistent with the Merger Order. Merger Order at 147.

The total credit level of \$197 million, plus approximately \$26 million in applicable taxes,

is based on Ameritech Illinois' estimate of net merger savings for 2001 through 2004, totaling \$412 million. The Joint Proposal provides that an additional \$50 million in contested net merger savings would also be shared with customers. Thus, the net merger savings to be shared with customers total \$462 million, in addition to the \$6.727 million of 2000 savings that was already shared with customers in October 2001. The Joint Proposal provides that the net present value of the \$412 million of savings for 2001 through 2004 (\$344 million), plus the \$50 million in contested net merger savings, would be shared with customers on 50/50 basis through a one-time credit issued as soon as practical. Ratepayers would then receive one-half of the total of \$344 million plus \$50 million in contested savings (a total of \$394) or \$197 million. Id., at 8.

GCI/City contends, as TerKeurst testified, that the total customer credit levels in the Joint Proposal represent a reasonable resolution of net merger savings to be shared with customers, in light of the risk that actual net savings in future years may be lower than the forecasted amounts, the risk that the Commission would not agree with intervenors regarding the contested merger cost and savings issues, the benefits of a one-time credit, and the significant value to resolving the current litigation and avoiding future litigation. Id., at 8-9.

The proposed one-time credit based on the period through 2004 can be viewed as bridging the gap until the next alternative regulation review and until Ameritech Illinois' TELRIC-based UNE rates are updated. GCI/City supports TerKeurst's recommendation that the Commission require Ameritech Illinois to submit an application for another review of the alternative regulation plan no later than March 31, 2004. At that time, the Commission would consider whether Ameritech Illinois' rates are just and reasonable, with merger savings embedded in the company's operating results examined during such a review. When the Commission reviews Ameritech Illinois' rates as part of that alternative regulation proceeding, the merger savings would then be reflected in Ameritech Illinois' price cap-regulated rates on a permanent basis. For non-price cap regulated services, the expectation is that Ameritech Illinois' TELRIC-based rates will be updated and merger savings will be flowed through to rates for those

services. Additionally, the expectation is that Ameritech Illinois' TELRIC-based rates will be updated by 2004. Id., at 9-10.

V. ICC Staff and CLEC Coalition

1. Reduced Shared and Common Costs

a. CLEC Approach

The CLEC Coalition contends that the Commission should look to the original merger order and follow the approach established in 1999. They contend that the Commission should pass merger related savings to carriers by reducing the shared and common costs percentages currently in rates for UNEs and interconnection related services. Joint CLEC Ex. 1.0 on Reopening at 4. The CLEC Coalition then goes on and proposes that we import the shared and common costs allocator from an Ameritech Indiana study. Joint CLEC Ex. 1.0 on Reopening at 16. Further the CLEC Coalition also requests a five year cap on UNE rates. Joint CLEC Ex. 1.0 on Reopening at 17.

GCI/City believe that shared and common costs should reflect merger savings. However, for practical reasons, this may not be the docket to undertake a review of new shared and common costs studies and related pricing elements. As noted earlier, the Merger Order contemplated revised TELRIC and shared and common cost studies being filed. However, the order did not place the review of those studies in the Alternative Regulation docket. While, GCI/City maintain that UNEs should be covered by the Alternative Regulation formula, currently UNEs are not treated in that fashion. With respect to the five year cap on UNE rates, GCI/City contend that this docket is not the proper forum to consider such a pricing policy. As Ms. TerKeurst stated in addressing Mr. Starkey's proposal with respect to UNEs:

While Ameritech Illinois' shared and common cost fixed allocator should be updated, merger savings can be distributed to the CLECs without changing the fixed allocator or UNE rates in order to facilitate prompt distribution of merger savings. Additionally, there are problems with Mr. Starkey's proposal to decrease the

allocator in this proceeding. He has not offered sufficient information to assess or implement the UNE rate reduction he has proposed. Further, the differences between the current allocator and the Indiana-based allocator Mr. Starkey proposes are not solely due to merger-related savings and he has offered no detail on what portion of the substantial reduction he recommends can be traced to merger savings. As a result, I do not support Mr. Starkey's proposal that the update to UNE rates occur in this proceeding.

GCI/City Ex. 2.0 on Reopening at 4.

The Commission should decline to adopt a new shared and common costs allocator in this proceeding.

b. ICC Staff Approach

ICC Staff witness Marshall also agreed that UNE rates should be reduced to reflect merger savings by a reduction in shared and common costs. ICC Staff Ex. 36.0 on Reopening at 6. Ms. Marshall indicates that the Commission should not use Ameritech Indiana's shared and common costs as a proxy for Illinois's shared and common costs. ICC Staff Ex. 36.0 on Reopening at 8. However, Ms. Marshall contends that the Commission adopt a shared and common costs factor based on Ameritech Illinois and adopts part of her testimony in ICC Docket 00-0700.

The Commission should reject Staff's contention that an Ameritech Illinois shared and common costs factor be adopted in this docket. As discussed elsewhere, a new allocator is best determined in a separate proceeding.

2. Growth Rate

In the event that the Commission adopts the Joint Proposal and rejects the CLEC proposal that the Merger Order be enforced as originally anticipated, the CLECs propose modifications. Joint CLEC Ex. 1.0 on Reopening at 18. Starkey notes that merger savings are being captured over a four-year period. He also notes that "The problem exists with the fact that intrastate revenues attributed by CLECs, are growing year-over-year at a much higher rate than revenues for any of the other customer groups. Hence, more of the merger related savings from later years (if calculated ever year) would be attributable to CLECs than the other customer

groups.” Joint CLEC Ex. 1.0 on Reopening at 18-19. Starkey proposes that growth trend should be established. Joint CLEC Ex. 1.0 on Reopening at 19.

GCI/City contend that the Commission should reject the growth rate projections and allocations proposed by the CLECs. As noted by Ms. TerKeurst, “A growth-based allocation of merger-related savings to the different groups of customers could be appropriate only if growth rates could be estimated with reasonable accuracy. Therein lies the problem with Mr. Starkey’s alternative approach. The growth rates in purchases of UNE and interconnection services since they were first introduced clearly are not sustainable, since the continuation of recent growth rates would quickly outpace all available demand for local telecommunications services...” GCI/City Ex. 2.0 on Re-opening at 4.

As noted by Ameritech Illinois, projected growth rate for UNE revenues over the next three years would be highly speculative. AI Ex. 13.1 on Reopening at 8. Further, the approach taken by Mr. Starkey would have the effect of double counting the same end users. AI Ex. 13.1 on Reopening at 11 (Johnson).

In awarding merger savings, the Joint Proposal represents “a snapshot in time” and a reasonable approach to fairly resolving the issue of merger savings. The Commission should not premise its merger savings decision on speculation and should therefore reject the CLEC growth rate approach.

3. McLeodUSA Issues

Mr. Terfler raised objections to the Ameritech method for determining the number of business customer lines of resellers and the assumption that customers served via Centrex resale will be assumed to be business customers. McLeodUSA Ex. 1.0 on Reopening at 2. Terfler testified that “More than 43% of McLeodUSA business customers served via resale in Illinois have one to four lines per location...” McLeodUSA Ex. 1.0 on Reopening at 5.

With respect to the number of small business customers to be assigned credits, Ms Johnson noted “I would point out that the 13% figure was chosen as a proxy for the entire reseller

industry in Illinois, based on Ameritech Illinois' own business customer data. It is certainly possible that the reseller industry as a whole serves a disproportionate number of small business customers." AI Ex. 13.1 on Reopening at 2. Johnson also indicated "Nevertheless, the Company accepts McLeodUSA's assertion that the 13% figure is too low relative to its operations and would not object to adjusting McLeodUSA's credit amount based on the data submitted in this proceeding." AI Ex. 13.1 on Reopening at 4.

Ms. TerKeurst also testified that "I recommend that the amount of credits provided to McLeodUSA be based on the information that McLeodUSA has provided, which is that 43 percent of its business lines served via resale have one to four lines per location." GCI/City Ex. 2.0 on Reopening at 2.

On that same issue, ICC Staff witness Judith R. Marshall contends that the customers of resellers should receive the same amount of credit as Ameritech's own customers. Ms. Marshall indicates that ideally, Ameritech should contact each carrier and obtain the number of small business customers. If the Commission decides it is too burdensome, Ms. Marshall supports McLeod's alternative of a CLEC-based proxy. ICC Staff Ex. 36.0 on Reopening at 4.

The Commission should reject the CLEC-based proxy. While Ameritech had no objection to 43% figure being used for all CLECs, GCI/City contend that the Commission should use the 13% proxy, unless they are presented with record evidence that this number is too low, as McLeodUSA showed with their testimony. The Commission should utilize McLeodUSA's data submitted to determine its allocation in this proceeding. With respect to the other carriers, absent evidence that the 13% proxy is too low, the Commission should utilize the 13% approach.

With regard to the assumption that customers served via Centrex resale will be assumed to be business customers, Mr. Terfler indicated that McLeodUSA has 15,147 Centrex lines serving residential customers in Illinois. McLeodUSA Ex. 1.0 on Reopening at 9. Mr. Terfler noted that Ameritech proposes to assume that all Centrex resale customers are business customers. McLeodUSA Ex. 1.0 on Reopening at 9.

In response Ameritech indicated that "Ameritech Illinois agrees that, to the extent McLeodUSA is serving residence customers with Centrex lines, McLeodUSA should receive a credit for each such customer." AI Ex. 13.1 on Reopening at 6 (Johnson). Ms. TerKeurst also indicated that "I recommend that the amount of credits provided to McLeodUSA be based on the information that McLeodUSA has provided, which is that McLeodUSA has 15,147 Centrex lines serving residential customers in Illinois..." GCI/City Ex. 2.0 on Reopening at 3. ICC Staff witness Judith R. Marshall also indicated that the allocations should be corrected, thus agreeing with Mr. Conn. ICC Staff Ex. 36.0 on Reopening at 3.

GCI/City concur with this adjustment to cover McLeodUSA Centrex lines served by residential customers. The Commission should adopt McLeodUSA's adjustment to the original proposal with respect to Centrex lines serving residential customers. This would seem to resolve McLeodUSA issues with respect to Centrex lines serving residential customers and with respect to the 13% number related to proportion of small business customers. As the above adjustments show, GCI/City are committed to a fair and just resolution of the issues related to merger savings.

VI. Conclusion

WHEREFORE, the People of the State of Illinois, the Cook County State's Attorney's Office, the Citizens Utility Board and the City of Chicago urge this Commission to adopt the Joint Proposal and provide for the sharing of merger savings to consumers consistent with the positions set forth in this brief and GCI/City Testimony.

Respectfully submitted,

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